

## Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SAJ-01 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01

SCEM-02 /172 W

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R 101149Z DEC 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9174

C O N F I D E N T I A L SECTION 01 OF 02 BONN 17716

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN ECONOMIC POLICY

1. THE GERMAN GOVERNMENT WILL ABOLISH ITS ANTICYCLICAL TAXES ON INVESTMENT AND EXPAND SOME PROVISIONS FOR PUBLIC INVESTMENTS IN THE 1974 BUDGET. THE GOVERNMENT IS NOT YET, HOWEVER, MOVING TO A GENERALLY EXPANSIONARY FISCAL POLICY AND OPINIONS ABOUT THE PROPER STANCE OF MONETARY POLICY ARE DIVIDED. END SUMMARY

2. THE GERMAN CABINET WILL MEET ON DECEMBER 19 TO CONSIDER THE ECONOMIC SITUATION. THE CABINET IS EXPECTED TO PASS A NUMBER OF MEASURES WHICH HAVE ALREADY BEEN LARGELY AGREED BETWEEN THE ECONOMIC AND FINANCE MINISTRIES AND ANNOUNCED OVER THE WEEKEND BY MINISTER SCHMIDT IN A TELEVISION INTERVIEW. THESE INCLUDE A COMPLETE ABOLITION OF THE INVESTMENT TAX STARTING PROBABLY ON JANUARY 1, THE LIFTING OF THE SUSPENSION OF ACCELERATED DEPRECIATION FOR ONE AND TWO FAMILY  
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HOMES (THE 7B PROVISIONS) EITHER ON JANUARY 1 OR

RETROACTIVELY ON DECEMBER 1, AND THE INCREASE OF VARIOUS INVESTMENT EXPENDITURES IN THE 1974 FEDERAL BUDGET. THE FEDERAL GOVERNMENT IS ALSO EXPECTED TO URGE LAND AND LOCAL GOVERNMENTS TO INCREASE THEIR INVESTMENT EXPENDITURES.

3. ECONOMICS MINISTRY OFFICIALS TELL THE FINANCIAL ATTACHE THAT WHILE THESE MEASURES ARE FULLY AGREED BETWEEN THE MINISTRIES, THERE IS A DEGREE OF DISAGREEMENT IN THAT THE ECONOMICS MINISTRY AND THE BUNDESBANK LOOK AT THEM AS NECESSARY IN ORDER TO BE ABLE TO MAINTAIN THE RESTRICTIVE MONETARY POLICY (OTHER THAN OFFSETTING ADDITIONAL TIGHTNESS DUE TO CAPITAL OUTFLOWS). THE FINANCE MINISTRY, ON THE OTHER HAND, WOULD LIKE TO SEE THE LIMITED FISCAL MEASURES SUPPLEMENTED BY A SUBSTANTIAL EASING OF MONETARY POLICY AFTER THE TURN OF THE YEAR. IT IS NOT, HOWEVER, URGING A SWITCH TO A GENERALLY EXPANSIONARY FISCAL POLICY (ELIMINATION OF THE INCOME TAX SURCHARGE, SPENDING OF CYCLICAL FUNDS FROZEN IN THE BUNDESBANK, ETC.).

4. A DIFFERENCE IS ALSO NOTABLE IN THE PUBLIC PRESENTATION OF THE MEASURES. FINANCE MINISTER SCHMIDT AND THE CHANCELLOR STRESS THE DETERMINATION OF THE GOVERNMENT TO DO EVERYTHING NECESSARY TO "SAFEGUARD JOBS" AND THAT "THE ECONOMIC POLICY LIGHTS ARE NOW SWITCHED TO GREEN." ECONOMICS MINISTER FRIDERICH'S AND THE BUNDESBANK, ON THE OTHER HAND, STRESS THE NEED TO AVOID BEING PANICKED INTO GIVING UP PREMATURELY THE GENERAL RESTRICTIVE POLICY AND THE

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 17716

FIGHT AGAINST INFLATION ("MONEY CANNOT SUBSTITUTE FOR OIL").

5. MOST GOVERNMENT AND PRIVATE ECONOMISTS ARE NOW AGREED THAT UNLESS THERE IS A CONSIDERABLE EASING OF THE OIL SITUATION SOON, GERMAN REAL GNP WILL SHOW NO OR PRACTICALLY NO GROWTH IN 1974 (ON A YEAR-TO-YEAR COMPARISON) AND UNEMPLOYMENT MAY REACH 500,000 (A LEVEL NOT REACHED SINCE THE RECESSION OF 1967 AND THE FALL OF THE ERHARD GOVERNMENT). DESPITE OF THE CHANCELLOR'S ASSURANCE THAT "JOBS WILL BE MAINTAINED" THERE SEEM TO BE VERY FEW IDEAS ON HOW TO REDUCE THIS LEVEL OF PROJECTED UNEMPLOYMENT. SCHMIDT IS REPORTED TO HAVE INDICATED THAT, IF NECESSARY, THE FEDERAL RAILWAYS AND POSTAL SYSTEM WILL PROVIDE ADDED EMPLOYMENT. THE BUNDESBANK SO FAR INSISTS THAT EASIER MONEY WOULD ONLY FUEL INFLATION WITHOUT BEING ABLE TO OVERCOME THE EFFECTS OF A SHORTAGE OF OIL. PUBLIC CONSTRUCTION PROJECTS ARE RELATIVELY ENERGY INTENSIVE (CEMENT).

6. MOST GOVERNMENT ECONOMISTS, AND EVEN MORE SO POLICY  
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OFFICIALS, STILL REFUSE TO CONTEMPLATE WHAT WOULD HAPPEN IF ARAB OIL CUTS SHOULD OVER THE NEXT FEW MONTHS BECOME SIGNIFICANTLY GREATER THAN THE 20-25 PERCENT IMPLICIT IN THEIR PRESENT ESTIMATES.  
HILLENBRAND

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CABINET, ECONOMIC DEVELOPMENT, GNP, PETROLEUM, ECONOMIC PROGRAMS, BUDGET ESTIMATES, INVESTMENTS, TRADE CONTROLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 DEC 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973BONN17716  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** n/a  
**From:** BONN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t19731235/aaaaazqi.tel  
**Line Count:** 159  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** morefirh  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 01 AUG 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <01-Aug-2001 by worrelsw>; APPROVED <20-Sep-2001 by morefirh>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GERMAN ECONOMIC POLICY  
**TAGS:** EFIN, GE  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005